JOB AIDS: DOCUMENTING IP/PI EXCHANGES (con't)

EXHIBIT 4 - Intellectual Property/Proprietary Information Document Review Worksheet - this form is prepared by the author/creator of the information requested. It is forwarded, along with Exhibit 5 (if needed) to the department IP/PI SPOC.

EXHIBIT 5 - Intellectual Property/Proprietary Information Identification and Valuation Worksheet - this form is prepared by the author/creator of the information requested when the information requires compensation from the affiliate requestor. It is forwarded, along with Exhibit 4 (above) to the department IP/PI SPOC.

EXHIBIT 6A,B,&C- Employee Non-Disclosure Agreements - Three types of forms and instructions for usage are included in this exhibit. The appropriate form must be signed by the recipient(s) of IP/PI information **before** the information is released. The department SPOC should receive the signed original and forward it on the Pacific Bell Regulatory(the address is printed on the form). Included are:

- **Descriptions for EXHIBIT 6A, 6B AND 6C**
- **EXHIBIT 6A** -Employee Non-Disclosure Agreement
- **EXHIBIT 6B** - Reciprocal Non-Disclosure Agreement
- **EXHIBIT 6C** - Meeting Non-Disclosure Agreement

LOGGING REQUIREMENTS

Each department will maintain a log of IP/PI items that have been sent to affiliates. Normally, the department IP/PI SPOC will maintain the log. (Appendix D, Exhibit 2)

Who gets the logs

The CPUC may request the logs of IP/PI shared with affiliates at any time. Any such requests will be processed through Pacific Bell Regulatory and the TPAG. Therefore, copies of logs must be sent to the Transfer Pricing Affiliates Group IP/PI Coordinator at least quarterly.

Log due dates

Logs are due from each department on a quarterly basis by Mar. 15th, Jun. 15th, Sep. 15th, Dec. 15th **even if there is nothing to report**. These due dates were chosen so that the bulk of the transactions can be billed in the quarterly period the transaction took place.

Dual logging requirement

Affiliates are also required to log the IP and PI they receive from Pacific Bell. This duplicate log satisfies the PTG dual logging requirement. IP/PI SPOCs must provide the affiliate SPOC with the Transaction Number used on the Pacific Bell log.

Reconciling PB and Affiliate logs

Your department's Business Compliance Manager is responsible for reconciling departmental logs with affiliate logs. All discrepancies must be resolved. The department IP/PI SPOC will be required to investigate discrepancies in a timely manner and issue amended logs as required.

Log Retention Requirements

Logs must be retained for 10 years. They should be kept on site for 2 years and then sent to the Records Center for an additional 8 years. See S.I. 9 for records retention information and the Records Retention Catalog, Section 3 for the Record Number.

NON-DISCLOSURE AGREEMENTS

Normally, a Non-Disclosure Agreement must be signed by each recipient before delivery of Pacific Bell Intellectual Property and Proprietary Information including any verbal information passed on in meetings. (Exhibits 6A,B&C, Appendix D). **All Non-Disclosure Agreements must be routed through your Department IP/PI SPOC**. The IP/PI SPOC knows the special procedures used for Non-Disclosure Agreements that cover multiple recipients.

The IP/PI SPOC has the responsibility of sending all Non-Disclosure Agreements to Pacific Bell Regulatory. (Regulatory is required to forward them to the CPUC.) The original signed copy of Non-Disclosure Agreements must be sent to:

Pacific Bell Regulatory
140 New Montgomery, Rm. 914
San Francisco, CA 94105

COMPLIANCE REVIEW

On a quarterly basis, your department's Business Compliance Manger will perform a compliance review of practices within the department for handling affiliate requests for IP and PI. The results of the quarterly review will be approved at VP level.

MARKET PRICE

Introduction

In D.87-12-067, Ordering Paragraph 34u, the CPUC required Pacific Bell to develop studies on the Market Prices of its transfer priced services. Historically, Pacific has only performed Market Price Studies on transfer priced services to affiliates that have exceeded $100,000 in annual billings excluding billings to Nevada Bell and Pacific Bell Directory, provided that the study could be performed at a reasonable cost.

In D.92-07-072 Ordering Paragraph 8, the CPUC affirmed the requirement for Market Price Studies:

"Pacific shall continue to conduct market pricing studies for non-tariffed goods or services it expects to provide PBIS, except as follows:

Market Pricing studies are not required for goods or services which have an aggregate billing to all affiliates of less than $100,000 per year. Billings to Pacific and Nevada Bell shall not be counted toward the $100,000 threshold.

Pacific May use the Consumer Price Index factor to annually update the market prices derived from the 13 studies it has already performed. A new market price study for each of those services will be due four years from the date of the original study, if PBIS is still being provided that service and the $100,000 threshold is met at that time.

Definition

A Market Price represents the price in open market at which the transfer priced good or service would be available.

Determination of the Services to be Studied

The Transfer Pricing Affiliates Group (TPAG) will monitor the Services Over $100,000 Report (generated by the Transfer Pricing System) to determine if a transfer priced good or service has exceeded the $100,000 threshold. If a service has reached $100,000 and was not previously studied within the last four (4) years, TPAG will be responsible for completing the study within 180 days. TPAG will notify the consultant, the Transfer Pricing Administrator (TPA) and the Affiliate Contract Administrator as to which service will be studied and the date it must be completed. In the past, the accounting firm of Arthur Andersen has performed most of the Market Price studies.

Monitoring the Market Price Studies

Once a month the Market Price Steering Committee will request a status from the consultant to monitor the progress of the Market Price Study. The Market Price Steering Committee consists of members from TPAG, Pacific Telesis Enterprise Group Regulatory, Pacific Telesis Legal Group and the consultant. Occasionally the TPA and Affiliate Contract Administrator are asked to attend the monthly meetings and provide additional information on the service being studied. This committee represents the interests of the Pacific Bell service provider and the affiliate receiving the service. These monthly meetings were established to answer any questions the consultant may have that is delaying the progress of the Market Price Study.

Payment for the Studies

The cost of the studies, which includes both the cost of the consultant and time spent on the studies by Pacific Bell employees, are billed 100% to the affiliate(s) that purchased the service being studied. Pacific Bell employees who spend time on the Market Price Studies, must track their time to tracking code 1B1 and give this time exception to their payroll coordinator. The bills from the consultants should also be coded to tracking code 1B1.

It the service being Marked Price studied is provided to only one affiliate, arrangements can be made with the consultant to render the consultant bill directly to the affiliate. If the service is provided to multiple affiliates, the consultant will issue the bill to TPAG and TPAG will transfer price the various affiliate for the cost of the Market Price Study.

Methodology for determining the Market Price

Arthur Anderson has used the following methodology to develop the Market Price:
The methodology used in developing the market price first requires that a clear and concise understanding of the characteristics of the service being provided be obtained. This is accomplished through discussions with subject matter experts and Transfer Pricing Administrators (TPAs) within Pacific Bell. When needed, to more accurately portray the service as it is offered or priced in the market place, sub-service elements are identified.

Three or more vendors are then selected to survey for the Market Price of the service. The vendors are selected based on the market knowledge of Arthur Anderson, discussions with subject matter experts, and discussions with the affiliate users of the service under study. Whenever possible, vendors who have previously worked with Pacific Bell to provide similar services are used. The vendor responses are reviewed by Arthur Anderson to ensure comparability with the transfer priced service being provided by Pacific Bell. Adjustments to the vendor quotes are made, if necessary, to reflect Pacific Bell's pricing unit. For example, if a vendor quote is a daily rate and fully distributed cost has been computed using an hourly rate, the vendor quote will be adjusted to an hourly rate for comparison purposes. Once this review is completed, the vendor quotes are averaged to arrive at the weighted average Market Price for the service.

Finally, the Market Price is Compared to the Fully Distributed Cost (FDC) for each service under study in order to determine the costing methodology that will be used going forward.

In summary, the Market Price Studies involve two major components:

1. A review of FDC to ensure all costs are accurate.

2. An analysis of Market Price quotes received from three or more vendors to ensure comparability with the service being studied.

3. A comparison of the Market Price with Full Cost for each service under study.

Steps to be taken after Studies have been performed

When Arthur Anderson has completed the Market Price Study the following steps are taken:

1. The Market Price Steering Committee reviews and approves the consultant's draft of the Market Price Study.

2. Pacific Bell Regulatory sends a draft copy of the Market Price Study to the CPUC. The CPUC is given 30 days to review the study and provide comments back to Regulatory.

3. If no comments are received from the CPUC, Pacific Bell Regulatory will send the final bound version of the Market Price Study to the CPUC. If comments are received from the CPUC, they will be incorporated into the final bound version.

4. If the service was originally billed at FDC and the Market Price Study finds that Market Price is higher then FDC:
   A. The TPA is provided with a copy of the final Market Price Study.
   B. The TPA starts billing the service as the new Market Price beginning with the next billing cycle.
   C. The TPA must update and revise the schedule and manual to include the new Market Price rates.
   D. Retroactive billing for the difference between the Market Price and FDC back to the beginning of the year in which the service billing exceeded $100,000 needs to be completed. (The TPA will provide an estimated completion date to TPAG.) For example, if the service exceeded $100,000 in 1995, the study was completed in 1996 and the Market Price was determined to be higher than FDC, the difference between Market Price and FDC would be retroactively billed back to January 1995.

5. If the service was originally billed at FDC and the Market Price Study finds that FDC is higher than Market Price:

   A. The TPA is provided with a copy of the final Market Price Study.
   B. The TPA continues billing the service at FDC.
   C. Schedules and Manuals do not need to be updated.
   D. No retroactive billing is required.

6. If the service was originally billed at Market Price and the Market Price Study finds that FDC is higher than Market Price:

   A. The TPA is provided with a copy of the final Market Price Study.
   B. The TPA starts billing the service at the new FDC beginning with the next billing cycle.
   C. The TPA must update and revise the schedule and manual to include the new FDC.
   D. Retroactive billing for the difference between the Market Price and FDC back to the beginning of the year in which the service billing exceeded $100,000 needs to be completed. (The TPA will provide an estimated completion date.) For example, if the

service exceeded $100,000 in 1995, the study was completed in 1996 and Market Price was determined to be lower than FDC, the difference between Market Price and FDC would be retroactively billed back to January 1995.

Application of CPI to Market Price

Once a service goes Market Price, the Market Price is updated annually by applying the Consumer Price Index to the Market Price (this will be referred to as the Indexed Market Price). The indexing of **existing** Market Price services always begins in January of the new year. Indexing is done by TPAG and notification of the new rates is provided to the TPA prior to billing January business. Indexing for **new** Market Price studies follows these guidelines: If a Market Price Study is completed in January through September of 1996, CPI will be applied in January 1997 and the TPA will receive an Indexed Market Price to be used when billing January 1997 business. If a Market Price Study is completed in October, November or December 1996, CPI will not be applied until January 1998.

Once the Market Price is updated for CPI, it should be compared to the FDC to determine if the Market Price continues to be higher. If FDC is found to be higher after this comparison is made, then FDC should be used for the year. This comparison should continue to be made on an annual basis. Billing the higher of Market price or Full Cost would be in compliance with D. 92-07-072.

Determination of When to Re-Study the Service

Once a study has been performed, the service is not due for re-study until four years from the date of the original study. For reference purposes, the date of the original study is the date the report was released by Arthur Anderson. If it has been four years since the date of the previous study and the billings for the service currently exceed $100,000 excluding Nevada Bell and Directory, then the service needs to be re-studied. If it has been four years since the date of the previous study and the billings do not exceed $100,000 then there is no regulatory requirement to perform the study.

Other Services Priced at Market

There are other services Pacific Bell provides that are priced at market for which Arthur Anderson does not perform a Market Price. Study. These services, such as Property Management and Executive Answering are based on a market survey performed by the Pacific Bell service provider. The back-up for the Market Price charged for these services should be maintained by the organization providing the service and should be well documented.

List Price

List price is no longer accepted by the CPUC, therefore, services should no longer be billed using a list price.

CORPORATE PRINCIPLE 80

(AFFILIATE TRANSACTIONS POLICIES, GUIDELINES AND REPORTING REQUIREMENTS)

PACIFIC TELESIS GROUP

APPENDIX A

AFFILIATE TRANSACTIONS

POLICIES, GUIDELINES AND REPORTING REQUIREMENTS

PACIFIC TELESIS
Group

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INTRODUCTION

PURPOSE OF THE POLICY

This document describes the corporate policies, guidelines and reporting requirements that apply to Pacific Telesis Group companies whenever they transact business with an affiliate. They have been developed to ensure compliance with the laws and regulations governing affiliate transactions. They also ensure that affiliates receive appropriate compensation for such transactions.

The selling of assets, goods and services between affiliates is not unique to Pacific Telesis. Throughout most corporations, this kind of activity occurs regularly and is referred to as transfer pricing. Transfer pricing is the valuation of goods and services provided by one affiliate to another affiliate. Each Pacific Telesis affiliate implements its own procedures for pricing goods and services consistent with these corporate policies. For example, Pacific Bell has established internal guidelines known as the Inter-Entity Transfer Pricing Guidelines (S.I. 80).

DEFINITION OF IMPORTANT TERMS

For the purposes of this policy, an Affiliate is defined generally as any company consolidated in the corporate financial statements or accounted for under the equity method. The use of an accounting definition for an affiliate is intended to reflect the need to provide special care for transactions which are not arm's length. When an affiliate is consolidated it is, by definition, controlled and thus the transaction is not arm's length. If it is accounted for by the equity method, the parent is deemed to have "significant influence and control", and thus it is not arm's length. Ownership and control levels that don't meet these criteria, i.e., not deemed to have significant influence and control, use the cost method of accounting and are considered arm's length transactions. For example, the cost method would be used when Pacific Telesis owns a small stake in a large corporation.

Furthermore, using an accounting definition provides more assurance since the financial results of this definition are audited each year by independent outside auditors. See Appendix A for a chart of Pacific Telesis Group affiliates.

Additionally, for the purpose of this policy, the term telephone company or "telco" refers to Pacific Bell, Pacific Bell Directory and Nevada Bell. Questions regarding federal rules applying to Pacific Bell Directory transactions with other Bell affiliates should be directed to the contact listed in Appendix B. The term non-telephone company or "non-telco" refers to all other Pacific Telesis Group affiliates, including the Holding Company and Pacific Bell Category III Below-the-Line ("BTL") affiliates (e.g. Pacific Bell Information Services, Pacific Bell Mobile Services, Pacific Bell Internet Services, etc.). A Pacific Bell BTL affiliate is a company which is subject to California Public Utilities Commission categorization rules, which provides competitive services, has maximum product pricing flexibility (i.e. market price) and whose earnings are not included in the determination of sharing under California's incentive regulation process.

Appendix C (Glossary of Terms) contains definitions of other terms used in this document.

WHEN TO APPLY THESE POLICIES

These policies, guidelines and reporting requirements govern all transactions between "telco" and "non-telco" affiliates. There are two exceptions to the application of these policies:

- The Holding Company performs the functions of a "parent" to the corporation as a whole and does not normally provide non-tariffed goods and services to its subsidiaries. All Holding Company transactions are governed by its cost allocation policies and guidelines.

- Incidental contacts made in the ordinary course of business that do not result in the provision of a good or service or transfer of assets or personnel. This activity does not require compensation if it is conducted under the same terms and conditions as with outside third parties.

Transactions among non-telco affiliates should be conducted on an arm's length basis, i.e., using common business practices. Any compensation for such transactions should be as negotiated by the non-telco affiliates involved.

While transactions among Pacific Telesis Group affiliates must be priced in accordance with these policies, they should not be used to evaluate whether goods or services should be purchased from an affiliate or an outside company.

Generally, affiliate purchase decisions should be based on an evaluation of incremental cost versus market price. Incremental cost is the direct additional cost of providing the good or service. If the incremental cost of the affiliate providing the good or service is less than the market price outside the corporation, the purchase should generally be made from the affiliate. If the market price is less than the incremental cost, the purchase should be made outside unless there is a compelling non-economic reason, e.g., conflict with Pacific Telesis' overall business strategy. The comparison should be made based on equivalent terms and conditions.

If the above criteria are met, Pacific Telesis Group companies will not be penalized for purchasing a service from an affiliate at a higher transfer price than outside market price. Pacific Telesis will pay the purchaser the difference between the transfer price and the market price. All such proposed purchasing adjustments must be approved by Pacific Telesis in advance (see Appendix B for the Pacific Telesis contact).

GENERAL POLICY

Whenever Pacific Telesis Group affiliates transact business with one another they must ensure that the transaction:

- is conducted in accordance with these policies and guidelines;

GENERAL POLICY (CONTINUED)

- follows any other policies and guidelines of the affiliate companies involved in the transaction; and
- benefits both of the entities engaging in it, either in terms of their business strategy or expected financial returns.

To that end, each Pacific Telesis Group affiliate must implement these policies within its organization, and every employee must follow them. Management of individual companies must also develop the necessary procedures and controls to ensure adherence to these corporate policies. Procedures and controls should 1) establish, at a minimum, list and market pricing mechanisms and fully distributed costing methodologies (see Appendix D) ; 2) ensure that transactions meet the regulatory and legal requirements to which the company is subject; and 3) substantiate through documentation that corporate policies have been followed. (See Internal Control Guidelines, Documentation and Retention.)

REGULATORY ACCESS TO BOOKS AND RECORDS

Affiliate transactions are governed and subject to review by various legal and regulatory bodies, including the Federal District Court (in its oversight of the Modification of Final Judgment), the Federal Communications Commission (FCC), the California Public Utilities Commission (CPUC), and the California legislature. This document refers to these requirements where applicable, but all affiliates should be aware of the general requirements regarding access to books and records.

The CPUC has the authority to access the accounts, books, papers and documents of Pacific Bell and/or any subsidiary or affiliate of Pacific Bell when the information involves transactions between Pacific Bell and its affiliate to ensure that the transactions do not have an adverse affect on customers. (See Appendix A for a chart of Pacific Telesis Group affiliates.)

IF YOU HAVE QUESTIONS

Appendix B lists the contact for each Pacific Telesis Group affiliate who can assist you with questions concerning affiliate transactions including questions about the application of federal rules. Additionally, the videotape, Affiliate Transactions Compliance: The Mini - Series, may also be helpful in answering your questions. This videotape is required viewing for all management employees, and others with a need to know, in all Pacific Telesis Group companies. Your company contact can assist you in obtaining a copy of this videotape.

Deviations from these policies may also require review and/or approval by the applicable regulatory commission. For any situation that seems to diverge from these policies and guidelines, please consult the affiliate transaction contact in your company (see Appendix B).

Occasionally, transactions may be proposed which are not addressed in this document. In these instances, employees should review the proposed transaction with their company's affiliate transaction contact or the Pacific Telesis Group contacts in consultation with the appropriate legal representative before undertaking it.

GOODS AND SERVICES

TARIFFED GOODS AND SERVICES

Tariffed goods and services are those provided by an affiliate at tariffed prices authorized by a regulatory commission.

■ Sales Between Affiliates

Sales of tariffed goods and services among affiliates shall be at the tariffed prices established by the applicable regulatory commission with the following exception:

➡ CPUC Decision 92-07-072, Finding of Fact (FOF) 65 states: "Pacific must pay PBIS the lower of either market value or fully allocated cost, as determined when the upgrade has been installed, for voice mail service from PBIS".

NON-TARIFFED GOODS AND SERVICES

Non-tariffed goods and services are those which are not governed by any tariff. They include, but are not limited to, training, CDC, mail & messenger, and Employees Under Contract (loaned employees).

■ Sales From Telco Affiliates To Non-Telco Affiliates

Shall be priced at the higher of fully distributed cost (FDC) plus 10% or market price (when market price is determinable at a reasonable cost).

A properly executed Transfer Pricing contract must be in place prior to the provision of telco affiliate services to non-telco affiliates.

The additional 10% surcharge on FDC is required by the CPUC (Decision 86-01-026).

There are two exceptions to this policy:

1. Nevada Bell non-tariffed goods and services provided to non-telco affiliates shall be at list price. Absent a list price, the services shall be priced at FDC; and

2. Interconnection agreements between Pacific Bell and its affiliates because they are unique arrangements covered under contract and governed by CPUC Decision 90-06-025 as modified by Decision 90-10-047. This exception will be revised when Pacific Bell's tariff for interconnection becomes effective.

Non-tariffed services provided by Pacific Bell or Pacific Bell Directory to Pacific Bell Information Services (PBIS) shall be limited to those that are

NON-TARIFFED GOODS AND SERVICES (CONTINUED)

critical or essential as defined in Decision 92-07-072. For more information, contact the Pacific Bell affiliate transaction contact listed in Appendix B.

Pacific Bell and Pacific Bell Directory shall determine market price for services it provides to a non-telco affiliate where there is an annual aggregate billing to all affiliates in excess of $100,000 (excluding transactions amongst Pacific Bell, Pacific Bell Directory and Nevada Bell). The studies shall be completed no more than 180 days after Pacific Bell determines, or should have determined, the $100,000 threshold has been met. Pending completion of the market pricing studies, a non-telco affiliate shall be charged FDC plus 10%. If the results of the study find that market price is higher than FDC plus 10%, Pacific Bell shall retroactively bill the non-telco affiliate (retroactive to the beginning of the year in which the $100K threshold was reached) the difference between FDC plus 10% and market price, plus applicable interest (using the average 90 day commercial paper interest rate).

Telco non-tariffed services provided to a non-telco affiliate are not required to be made available to outside third parties.

A below-the-line service provided by a telco affiliate to a non-telco affiliate shall be provided at market price.

■ Sales From Non-Telco Affiliates To Telco Affiliates

Shall be priced at the lower of FDC or market price.

■ Sales Between Telco Affiliates

Shall be priced at FDC.

■ Services performed by the Pacific Telesis Group Holding Company for its subsidiaries

Shall be governed by the Holding Company cost allocation policies and guidelines.

REFERRALS

A referral is the identification of customers by Pacific Bell or Pacific Bell Directory to a non-telco affiliate, or the provision of information about a non-telco affiliate to customers by Pacific Bell or Pacific Bell Directory.

■ Referrals From Pacific Bell or Pacific Bell Directory to Non-Telco Affiliates

A properly executed Transfer Pricing contract must be in place prior to the provision of referrals by Pacific Bell or Pacific Bell Directory to non-telco affiliates. Referrals must be tracked and reported to the CPUC.

Equipment and Service referrals made to a non-telco affiliate shall be priced at FDC plus 10%. In addition to FDC plus 10%, a 13% fee on referral sales revenue received by the non-telco affiliate shall be paid to Pacific Bell or Pacific Bell Directory. For successful equipment referrals, whether for new or existing accounts, the 13% fee applies to the sales price of the equipment. For successful service referrals made to PBIS, the 13% fee applies to the first month's revenues generated by the referral (that service revenue shall include the first month's recurring and non-recurring charges from the successful referral).

The application of the 13% fee to referral sales revenue is required by the CPUC (Decision 87-12-067) and was based on Customer Premise Equipment (CPE) referrals by Pacific Bell to Pacific Telesis' non-regulated affiliates.

■ Tracking Requirements

Pacific Bell or Pacific Bell Directory shall submit a tracking and reconciliation plan to the CACD and DRA 30 days prior to providing any referrals. For more information consult the Pacific Bell contact (see Appendix B).

See Recording, Tracking and Reconciliation section (page 23) for more information.

ASSET SALES

GENERAL

In general, no assets may be removed from Pacific Bell without explicit CPUC permission. If the asset is no longer needed by Pacific Bell to carry out its duties, CPUC permission is not required. However if the asset is still needed, prior to the sale, consult your company affiliate transaction contact (see Appendix B) or your appropriate legal representative to determine whether CPUC permission (under California PU Code Section 851) is required.

EQUIPMENT

Equipment includes physical assets other than real property bought for use in the business. Equipment includes, but is not limited to, furniture, terminal equipment, personal computers and central office equipment.

■ Sales From Telco Affiliates To Non-Telco Affiliates

Shall be priced at the higher of net book value plus the seller's incremental transaction costs or fair market value.

Sale of equipment from Nevada Bell to non-telco affiliates shall be at list price. Absent a list price, the higher of market price or net book value plus the seller's incremental transaction costs.

■ Sales From Non-Telco Affiliates To Telco Affiliates

Shall be priced at the lower of net book value or fair market value.

■ Sales Between Telcos

Shall be priced at net book value plus the seller's incremental transaction costs.

■ Reporting Requirements

Pacific Bell and Pacific Bell Directory must notify the CPUC 30 days in advance of any asset sale with a fair market value of $100,000 or greater (Decision 87-12-067, Ordering Paragraph 29). See Reporting Requirements section (page 26) for further information.

REAL PROPERTY

Real Property includes land and any improvements thereon, such as buildings (including capital improvements to the buildings). Questions concerning real property sales should be directed to your company affiliate transaction contact (see Appendix B).

■ Sales From Telco Affiliates To Non-Telco Affiliates

Shall be priced at the higher of net book value plus seller's incremental transaction costs or fair market value.

For sales from Pacific Bell or Pacific Bell Directory, fair market value shall be established by competitive bid. The use of competitive bid is required by the CPUC (Decision 86-01-026, Ordering Paragraph 8). For more information consult the Pacific Bell affiliate transaction contact listed in Appendix B.

Sale of real property from Nevada Bell to non-telco affiliates shall be at list price. Absent a list price, the higher of market price or net book value plus the seller's incremental transaction cost.

■ Sales From Non-Telco Affiliates To Telco Affiliates

Shall be priced at the lower of net book value or fair market value.

■ Sales Between Telco Affiliates

Shall be priced at net book value plus the seller's incremental transaction costs.

■ Reporting Requirements

Pacific Bell and Pacific Bell Directory must notify the CPUC 30 days in advance of the sale of real property with a fair market value of $100,000 or greater. See Reporting Requirements section (pages 26 and 28) for further information.

REAL PROPERTY RIGHTS

A real property right is the right offered by one affiliate to another to purchase real property (e.g. an option). Questions concerning the transfer of real property rights should be directed to your company affiliate transaction contact (see Appendix B).

■ Transfers From Telco Affiliates To Non-Telco Affiliates

Shall be priced at market price.

For transfers from Pacific Bell or Pacific Bell Directory, market price shall be established using an independent appraisal. The use of an independent appraisal is required by the CPUC (Decision 87-12-067, Ordering Paragraph 34c). The independent appraisal shall consider the following:

- the relationship of the party exercising the option to Pacific Bell or Pacific Bell Directory;
- the selling price of the property if Pacific Bell or Pacific Bell Directory vacated the property; and
- the lease rate of the property if Pacific Bell or Pacific Bell Directory vacated the property.

■ Transfers From Non-Telco Affiliates To Telco Affiliates

Shall be priced at market price.

■ Transfers Between Telco Affiliates

Shall be within the constraints of legal and regulatory requirements and shall incorporate those terms and conditions agreed upon by the negotiating telco affiliates provided such terms are not less than the seller's incremental cost of the transaction.

■ Reporting Requirements

Pacific Bell and Pacific Bell Directory must notify the CPUC 30 days in advance of the sale of real property rights with a fair market value of $100,000 or greater. See Reporting Requirements section (page 26) for further information.

LEASES

LEASES

Leases are agreements that convey the right to use tangible or intangible assets, normally property, plant or equipment, usually for a specified period of time, and establish the terms and conditions of such conveyance. Questions concerning leases should be directed to your company affiliate transaction contact (see Appendix B).

■ Leases From Telco Affiliates To Non-Telco Affiliates

Shall be priced at the higher of FDC plus 10% or market price.

Prior to the lease of telco property, consult your company affiliate transaction contact (see Appendix B) or your appropriate legal representative to determine whether CPUC permission (under California PU Code Section 851) is required.

A properly executed Transfer Pricing contract must be in place prior to provision of a telco affiliate lease to a non-telco affiliate.

Leases from Nevada Bell to non-telco affiliates shall be at list price. Absent a list price, the lease shall be priced at FDC.

■ Leases From Non-Telco Affiliates To Telco Affiliates

Shall be priced at the lower of FDC or market price.

■ Leases Between Telco Affiliates

Shall be priced at FDC.

PROPRIETARY INFORMATION

Information Transferred From Telco Affiliates to Non-Telco Affiliates

Employees must handle proprietary information (PI) according to the Pacific Telesis Group Policy on Proprietary Information (See Appendix E) which specify the circumstances under which it may be shared with affiliates. Proprietary information includes any kind of information that:

- provides an economic advantage over competitors and others who do not have the information;
- if it is released in an unauthorized or improper manner, the company will suffer an economic harm, loss or disadvantage as a result; and
- the company has made reasonable efforts to maintain its secrecy including limiting the distribution and requiring non-disclosure agreements to be signed.

PI also includes any information which the company has a contractual, legal or regulatory obligation to protect. Each employee is responsible for treating proprietary information with care.

Proprietary information can include, but is not limited to:

- business and financial information;
- technical data and drawings;
- records or letters;
- customer account information;
- trade secrets;
- new project or marketing plans;
- cost data;
- salary information; and
- personnel information.

By the FCC's Computer Inquiry II Order, employees of Pacific Bell, Nevada Bell and Pacific Telesis may not provide customer proprietary network information (CPNI) to any Telesis company that furnishes customer premises equipment (CPE) or enhanced services to others unless such information is available to any member of the public on the same terms and conditions (available upon a customer's written request).

PROPRIETARY INFORMATION (CONTINUED)

■ Transfers Between Telco Affiliates

Shall be within the constraints of legal and regulatory requirements and shall incorporate those terms and conditions agreed upon by the negotiating telco affiliates, provided such terms are not less than the seller's incremental cost of the transaction.

Questions concerning proprietary information should be discussed with your supervisor or your company affiliate transaction contact (See Appendix B).

INTELLECTUAL PROPERTIES

INTELLECTUAL PROPERTIES

For purposes of this document intellectual properties (IP) include patents, software, copyrights, trademarks, and service marks. Questions concerning intellectual property matters should be directed to your company affiliate transaction contact (see Appendix B).

■ Transfers From The Holding Company To All Affiliates

Intellectual property owned by the Pacific Telesis Group Holding Company, including ownership of all trade marks and service marks, is generally made available to all affiliates without compensation. However, trademarks and service marks which are in current use but which have been developed by one or more affiliates will not be made available by the Holding Company to other affiliates without written consent of the developing affiliate(s) and potentially with compensation. Incremental transaction costs incurred by the Holding Company will be billed in accordance with the Holding Company cost allocation policy and guidelines.

■ Transfers From Telco Affiliates To Non-Telco Affiliates

Prior to the provision of IP to a non-telco affiliate, the telco affiliate must ensure that its customers will not be adversely impacted as a result of that disclosure. Additionally, a properly executed Transfer Pricing contract must be in place prior to the provision of telco affiliate IP to a non-telco affiliate.

For IP provided from telco affiliates to non-telco affiliates, tracking and pricing requirements should be in accordance with the Pacific Telesis Group Policy on Proprietary Information contained in Appendix E.

> Note: If IP is provided to PBIS, the IP must be "critical or essential," as defined in Decision 92-07-072 (see Appendix C for the definition of critical or essential).

If IP is part of a telco affiliate service provided to a non-telco affiliate, the telco affiliate will be compensated for the IP by the non-telco affiliate's payment for the underlying service. If, however, the telco affiliate determines that the IP has a separately identifiable value in addition to the direct value of providing the service to the non-telco affiliate, the telco affiliate will identify the value and bill the non-telco affiliate separately for this value.